

DEPARTMENT OF FINANCE

COLLECTION ACCOUNT

BANK RECONCILIATION

SEPTEMBER 2002

INTRODUCTION AND SCOPE

The Howard County “Collection” Account was established with Allfirst Bank for handling all County collections regardless of which County Agency makes the deposit. Transactions that flow through the “collection” account are deposits, wire transfers, debit and credit memos, investment transactions, returned deposit items and transfers to other accounts. Every month this County General Leger account is reconciled with the Allfirst bank statement.

Because of reconciliation issues encountered during the annual financial audit for June 30, 2001, our office has performed a review of the December 2001 Allfirst “collection” account bank reconciliation. This review included examining and flowcharting the procedures for performing the bank reconciliation. In addition we reviewed the reconciling items on the bank reconciliation and traced these items to the previous and subsequent bank reconciliations to determine how quickly the reconciling items were being resolved and the timeliness of deposits in transit clearing the bank. The purpose of this review was to determine the effectiveness of the current process and the internal control strengths and weaknesses in place.

FINDINGS AND RECOMMENDATIONS

Our first step was to review written procedure 1.7096, Reconciliation of Collection Bank Account. This procedure explains the processes and pertinent steps in the collection account bank reconciliation. We discussed this procedure with appropriate Department of Finance staff as well as prepared a flow chart. These procedures appear to be adequate except as noted below.

At the beginning of this process, all correspondence relating to this account is gathered. This includes the detail trial balance report, all journal vouchers that relate to this account, the Cash Summary (summary of all cash deposits), bank advises and statements. Once all the necessary documentation is gathered, the transactions that appear on the bank statement are summarized by transaction type. After all of the transactions have been identified a spreadsheet is prepared comparing the bank transactions to the transactions in the “collection” account. All of the differences that appear on this spreadsheet must be identified. These differences may, (1) be an adjustment from a previous month, (2) a reconciling item on the current month’s reconciliation or, (3) cancel each other out on the spread sheet.

The majority of these reconciling items are transactions that appeared on the bank statement but have not yet been accounted for in the County’s financial system (e.g. deposits made by agencies outside of Finance). Other reconciling items are also for items that have been included in the financial system but have not yet cleared the bank (e.g. deposits in transit).

The Cashier’s Office is responsible for preparing the Cash Summary, which is a summary of all deposits. Deposits are made by individual County agencies that send or bring a copy of the deposit slip to the Cashier’s Office. These deposit slips are sent or brought either via bank courier or by the individual agency. Once the deposit slip is received the deposit is recorded on the cash summary and in the financial system. In reviewing the December 2001 bank reconciliation we noted that there were \$1,243,830 in reconciling items for deposits that had not been recorded in the general ledger (i.e. the Cashier’s Office had not received the deposit slip). Of these \$502,299 were for the period from July 2001 through November 2001 and had not been recorded by December 2001. We also reviewed subsequent bank reconciliations to determine when these items were adjusted. \$1,145,567.82 of these

reconciling items for December and prior was adjusted in January. The Chief of Accounting Control worked with the Cashier's office to determine how to resolve these outstanding items. The Cashier's office was able to contact the individual County agencies, received the necessary documents and posted necessary adjustments. By February 2002 all but \$277.25 of these items were adjusted. Procedure Number 1.7096 states that the various divisions should be informed of any reconciling items, so that they can post adjusting entries the following month. Although it appears that there is now more of an effort to resolve these reconciling items we still feel it is necessary to emphasize that adjustments needed due to the reconciliation should be completed as quickly as possible to affect the correct balance. We therefore recommend that:

1. **The Cashier's Office request agencies to submit outstanding deposit slips prior to month end closing procedures. In addition, for all deposits not recorded prior to month end timely journal entries be made as soon as possible after the bank reconciliation is completed.**

Administration's Response:

The Administration concurs with this recommendation. On July 15, 2002 the Director of Finance issued a memo to all department heads stressing the requirement to forward deposit slips at the time the deposit is made; to use only encoded deposit slips; to send copies of all invoices they issue to the Head Cashier and to designate a contact person who can assist the Head Cashier in researching unidentified deposits. All of these procedures will improve the timeliness of posting corrections for unrecorded deposits.

Another large reconciling item that appeared on the bank reconciliation was an item for the clearing of disbursement and payroll checks. When the spreadsheet comparing the bank to the cash transactions was prepared there was a difference of \$21,192,187. It was determined that this amount was for the payroll and disbursement checks that cleared during the month. This is a monthly journal entry that is prepared every month, that was overlooked in the month of December. As soon as it was discovered, the necessary journal entry was made. We would therefore recommend that:

2. **A procedure be established to ensure that all necessary adjustments are made prior to month end closing. The Department should consider creating a**

checklist for use by the Division of Financial Management or updating the current checklist to note the journal entries that must be made each month.

Administration's Response:

The Journal Voucher Checklist used by Accounting Control has been revised to indicate which journal entries are required monthly. The division chief reviews the listing and, along with the bureau chief, will follow up on any required journal vouchers not submitted.

In December 2000 the automated investment management system that the Department of Finance was using was discontinued. The system would record daily cash sweep, allocate interest to all funds on a daily basis among other things. In addition since transactions were recorded daily it allowed for a daily reconciliation between the balance per the bank and balance per the books. Any inconsistencies were identified immediately. Although this system did have many benefits, it still required many manual journal entries to be made. Since transactions were entered as batches it was difficult to track individual transactions. At that time a new system had been purchased, however it was not yet compatible with the existing financial system. Prior to the new system being operational, the annual maintenance contract was to be renewed for the old system. Since it was believed that the new system would be operational the maintenance contract was not renewed and the "old " investment management system was terminated. Since December 2000, the Department of Finance has not initiated the new investment system. Since there is not an operational automated investment system all transactions must be recorded by manual journal entries.

During the June 30, 2001 financial audit, it was discovered that many of these manual journal entries that were posted were incorrect. It was also determined that not all of the necessary entries were being posted. Since these errors were discovered Financial Management has gone back to December 2000 and determined what transactions occurred.

In reviewing the December 2001 bank reconciliation we noted that there were reconciling items totaling \$1,243,940.48 that relate to the investment activities that go through this account. These reconciling items were for things such as properly classifying transactions, reversing journal entries incorrectly recorded, and recording purchases and sales or investments that have not yet been accounted. Of this amount \$5,843,259.32 is for the month of December and (\$7,087,199.80) is for November and prior months. It was not until

February 2002 that all of the necessary adjustments to correct this account were made. This means that there was an incorrect balance in this account and the investment account for fourteen months, December 2000 through February 2002.

Since the time of the June 30, 2001 financial audit, Financial Management has created a manual spreadsheet to summarize all investment transactions. We understand that this report is being prepared using the bank statement as a guide for preparation. After this spreadsheet is completed, Financial Management will then manually make all necessary journal entries to reflect the investment activity for the month. In many instances large amounts are received at the end of the month, which would cause these allocations to be inaccurate. This method does not give an accurate balance in the general ledger for cash, investment and other related accounts on a daily basis. The balance for these accounts will always be for the previous month end balance. The automated system that was discontinued recorded transactions on a daily basis, allowing for up to date account balances. The interest allocation is based on the month end figures as opposed to daily, as was done with the “old system”. In addition by not having an automated system, there is still the risk that there will be erroneous entries made along with necessary entries not being made, creating the same problems that were outstanding for fourteen months. We feel that use of an automated investment system would significantly reduce the possibility of human error, strengthen internal controls and provide a more accurate reflection of account balance. In addition, the automated system allowed for investment opportunity, like daily sweeps of accounts and daily interest allocation. We therefore recommend that:

3. *The computerized investment system package be made operational at the earliest possible time to track and maintain investment records.*

Administration’s Response:

The investment package will be installed and functioning as soon as possible. The system installation has been delayed because of personnel turnover and the demands of implementing GASB 34. The system implementation will begin in November.

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